MANAGEMENT INFORMATION SERVICE

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INSURANCE PROGRAMS FOR SMALL AND MEDIUM-SIZED CITIES

How can a city analyze its insurance needs and obtain adequate insurance coverage at reasonable cost?

Introduction

Municipal insurance is taken out in order to protect the city from unforeseen losses which would be too large to sustain from current revenues. The basic forms of municipal insurance protection include: fire and extended coverage insurance to protect the city from property losses; public liability and property damage insurance to protect the city from damage claims; bond insurance to protect against losses of city funds; and workmen's compensation insurance to protect the city from claims of employees for accident-connected injuries.

The chief administrator is faced with the problem of how to obtain adequate insurance protection at reasonable cost. He must be concerned with the kind of protection that is necessary, the hazards that should be insured against, and the risks not requiring insurance. At the same time the chief administrator is concerned with the elimination of hazards and must take steps to improve the safety of his municipal operations in order that serious losses are avoided and so that hazards may be insured at reasonable cost. The administrative officer must obtain sound technical information, know where such information may be obtained, and how it may be fully utilized. He must also know how to place his insurance in order that adequate protection is provided for at reasonable cost. This report discusses what hazards should be insured against, how technical information may be obtained, how safety standards may be improved, and the methods that may be used by the chief administrator to place municipal insurance.

Excluded from this report will be any discussion of fringe benefit insurance programs which cities often provide to their employees including unemployment insurance; group health insurance; group accident insurance covering nonoccupational accidents; or any forms of group life insurance. Since these forms of insurance are primarily offered for the benefit of the employee rather than for the direct protection of the city, they are not included in this discussion.

This report is prepared primarily for the assistance of the chief administrator or finance officer of a small or medium-sized city where no official is employed on a full-time basis to administer the insurance program. Some of this information can be utilized by a large city, but such a city should be doing much more insurance planning than set forth in this report, should employ a full-time administrator to handle its insurance program, should obtain professional technical advice on a regular basis, and should prepare a comprehensive insurance manual.

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Methods for Placing Insurance

Single Agent. The earliest method for placing municipal insurance called for the city to take out a single insurance policy through an individual agent to cover specific risks. Some cities placed individual policies with different agents; others placed all of them with one agent. Under such a plan each agent would concern himself primarily with his own individual insurance problems, and little attention was given to general, over-all needs. Many insurance agents feel that this practice is not completely fair and that only those who are favorites of the city administration are dealt in on the insurance business.

Insurance Agents' Association. In order to distribute the insurance business and to obtain insurance services on an over-all program basis rather than on an individual basis, many cities today pool the resources of their insurance agents through an insurance agents' association. Insurance agents have usually been willing to form a special committee to render technical assistance in formulating an over-all insurance program. The noncompetitive association plan is the one preferred by the great majority of insurance agents.

There are many methods of distributing municipal insurance through an association. One insurance agency may be designated to work with the city's chief administrator in placing the insurance among the local agencies. One or a relatively few companies may be selected to write the insurance business, and the commissions from this insurance are distributed on a predetermined basis to local agents.

The problem of dividing commissions among local agents invariably arises. A plan used by one city calls for the insurance to be handled by a group of three agents representing the association. These agents place the insurance, collect the premiums, and distribute the commissions among all of the participating agents in the city. Another city pays 50 per cent of the commissions to the supervisor who handles the insurance, and the supervisor divides the other 50 per cent of the commissions among qualified agents equally. In a third city, one agency writes all of the insurance and takes 40 per cent of the total commission. The remaining 60 per cent is distributed to other agencies in the city on the basis of total taxes paid to the city, number of full-time employees, number of years in the business, and location of the company represented by the agent with preference given to companies licensed by the state and maintaining full-time local offices.

Competitive Bidding. Some cities have obtained substantial savings through purchasing insurance by competitive bidding. Through the preparation of adequate specifications and advertising for bids, there have been wide variations in the bids cities have received. Cities will find as much as 100 per cent variation between the bids submitted by insurance companies. Often there is competition in rates for municipal insurance (less so for fire insurance), and any insurance company is interested in adding good risks to its insurance program in order to increase its income.

According to the 1956 *Municipal Year Book*, 75 per cent of the reporting cities over 10,000 placed fire insurance with a group of insurance agents while 58 per cent of the cities surveyed used this method for placing their general liability and motor vehicle liability insurance. Only 12 per cent of the cities purchased fire insurance through competitive bidding, while 25 per cent of the cities used competitive bidding for general and motor vehicle liability insurance. Placement with a single agent is the least used method.

Most city officials who have used competitive bidding state they have been able to obtain better coverage at less cost. Some of the advantages of competitive bidding are: (1) the possibility of lower premium costs as a result of competition; (2) allowing all insurance agents and brokers to compete on a fair and equitable basis; and (3) eliminating at the start any misunderstanding regarding provisions of the insurance and permitting the city to incorporate as a rider or endorsement to the policy the actual specifications themselves. The part of the specifications which relates specifically to the form of the policy should be signed as an endorsement by the successful bidder. The standard insurance policy issued plus the endorsement prepared by the city then becomes the contract document.

Insurance men usually contend that there cannot be any competition in insurance rates. In most states, however, insurance regulations embody the following basic principles:

1. Reasonable competition in the insurance industry is *neither prohibited nor discouraged.*

2. Uniformity in rates is permitted *but not required.*

3. No insurance company is required to become a member or subscriber of any rating bureau.

4. Independent rate filings and rate deviations *are permitted.*

Recently state legislation embodying the above mentioned principles were enacted following Congressional adoption of the McCarran Act which made insurance companies subject to anti-trust laws in the absence of state regulations. This caused the states to rewrite their insurance laws in accordance with the above mentioned principles in order that control of insurance would remain in the hands of the states rather than be surrendered to federal control.[1]

Before a city advertises for bids it is necessary to prepare a complete set of clear and concise specifications spelling out in detail the methods for submitting bids, facts about the city and the risks to be insured, and the requirements for appraisal, engineering, or inspectional services which will be needed to implement a sound program. A well prepared set of specifications usually states the minimum rating of the company according to *Best's Insurance Guide* that the city will accept and the minimum rating on the financial standing of the company.

Other facts about the company should be required such as its ability to write insurance in the state in which the municipality is located, whether the city will accept only nonassessable policies or policies that are assessable, and the terms under which such assessments can be made and to what extent such assessments can be levied. Certain policies specify that the insuree may be assessed by the company in order to cover unusual losses that the company cannot sustain from its reserves.

The specifications should state the requirement of a deposit to be submitted with the bid as a demonstration of good faith and should spell out terms for payment of premiums. Certain accompanying statements ought to be submitted by the bidder such as: that the agency submitting the bid is located in the general area; that the latest sworn financial statement of the insurance company is being submitted; and a written agreement to the effect that the successful bidder will submit periodic written engineering reports following a physical inspection of all properties insured, with suggestions for improvements, safety, and premium savings.

After the specifications, bid sheets, and invitation to bid have been completed they should be circulated as widely as necessary to provide truly competitive bidding. In fairness, all competent insurance agents in the city should be invited to submit bids. So that wider interest is generated, the chief administrator may obtain from the state insurance commissioner a list of all insurance companies licensed to do business in the state and a clarification of what forms of insurance these companies are licensed to write. This can be done simply by getting the city's name placed on the mailing list of the state department of insurance regulation and maintaining a file of periodic reports noting any changes in the status of insurance companies operating in the state.

Specifications and bidding procedures are described in more detail in subsequent sections dealing with major types of insurance.

Types of Insurance Carriers

Capital Stock Insurance Companies. A stock insurance company is a corporation owned by stockholders who have invested their money in the company in order to earn a profit. A stock insurance company is usually organized like other profit making corporations, being governed by a board of directors. While dividends are paid to stockholders from earnings of the company, not all of the earnings of such companies are paid in dividends since underwriting profits (premiums "earned" less expenses, taxes, and claims) are retained in order to increase the companies' reserves for paying claims and to permit expansion of activities.

[1] This outline of principles is taken from an address by Victor R. Hansen, assistant attorney general of the United States in charge of the anti-trust division, Department of Justice, presented on May 7, 1958 before the Spring Insurance Conference of the American Management Association. These principles evolved out of the ruling handed down in *United States* v. *Southeastern Underwriters Association*, 322 U. S. 533 (1944), and the passage of the McCarran Act.

According to the 1956 *Municipal Year Book*, stock companies underwrite all of the fire insurance in 58 per cent of the 723 cities surveyed while for general liability and motor vehicle public liability insurance, 67 per cent of the cities surveyed place this insurance exclusively with stock companies. Since it is a general practice of stock insurance companies not to submit competitive bids below the standard rate recommended by the rating bureaus responsible for setting insurance rates, more and more cities are looking towards other methods for placing their insurance.

Mutual Insurance Companies. Mutual insurance companies have neither capital stock nor stockholders and are cooperative undertakings whereby the policy holders are the owners of the enterprise and share in either the profits (dividends) or losses (assessments) of the company. Thus if a mutual company is threatened with insolvency, theoretically, each policy holder may be assessed for such losses. In many states, however, a mutual insurance company may issue "nonassessable" policies if its surplus is sufficiently high. State laws usually require that the surplus reserves bear a certain relationship to the value of policies outstanding.

If a city insures with a mutual company it should require in its specifications a clear statement of whether or not the policies to be written by a mutual company are "assessable" or "nonassessable." It should also require a statement relating the extent to which such policies are assessable by the company in the event of severe losses. Depending on the degree to which such a policy is assessable, the city may wish to obtain a separate policy to cover such assessment liability. This can be obtained at a nominal cost. A city may save money by purchasing a nonassessable policy in the beginning.

It has been contended that cities cannot insure in mutual companies, that because of being assessable for company losses, they would be lending their credit and that this is usually limited by the state constitution. Such contentions have been overruled in many state courts, however.

Mutual insurance policies usually are written at rates established by the state rating bureau, and a "dividend" is returned to the policy holder at the expiration of the policy if earnings justify it. Some mutual companies, however, submit bids substantially below the regular rates, thus giving the city the benefit of some discount or dividend in advance.

Although there is evidence that mutuals are beginning to share in a larger proportion of the municipal insurance business, the 1956 *Municipal Year Book* shows that of 723 cities surveyed, only six per cent of these cities placed fire insurance exclusively with mutual companies. Only nine per cent of the general public liability insurance of the city was written exclusively by mutual companies. Ten per cent of the motor vehicle liability insurance business of cities was placed exclusively with mutual companies. A large number of cities divide their business between stock and mutual insurance companies — 36 per cent of these cities divide fire insurance business; 24 per cent divide general public liability insurance; and 22 per cent divide the motor vehicle liability insurance business between stock and mutual companies.

Factory Mutuals. A factory mutual insurance company is a specific form of mutual insurance company and differs from an ordinary mutual company in several respects. First, a factory mutual usually issues insurance policies which are assessable, usually up to a fixed amount of the premium. Assessments as high as five times the original premium may be required of a factory mutual but are levied, however, only if extraordinary losses occur which cannot be defrayed from company reserves.

A factory mutual usually requires a premium deposit to be advanced by the policy holder, and against this deposit an absorption is made representing the cost of the insurance for the period the policy is in force. Changes in the absorption rate are determined by the directors of the company who are themselves policy holders. If large surplus funds to cover losses have been maintained, the absorption rate can be held at a constant level. The premium deposit is the policy holder's payment less the amount which has been absorbed pro rata for the period the insurance has been in force. The unabsorbed balance is returned to the insuree upon cancellation of his policy or is credited to the insured's account upon renewal of his policy.

Factory mutuals usually write fire insurance only but may also provide extended coverage and vandalism and malicious mischief coverage. Factory mutuals are not widely used by cities but do insure certain county and state properties.

Standards for an Insurance Carrier. Before placing a city's insurance, minimum objective standards for the insurance carrier should be defined and stated. Political pressures should be avoided when defining standards for a carrier. Factors to be considered in setting these standards are:

1. The scope of the company's business. Is it nation-wide in its operations? Is it a company that is licensed to do business in many states? Are the risks of the company spread widely rather than concentrated in a few selected areas?

2. Has the company had many years of experience and been able to build a sound management program? Has the company been in business long enough to establish sound loss experience and to accumulate adequate financial reserves to meet unanticipated losses?

3. The quantity and quality of reserves are important considerations in selecting a company. The amount of the reserves, the diversification of assets, and the liquidity of these assets determine the ability of the company to pay claims promptly. Although insurance companies are required by state laws to maintain reserves, there is a wide variation among the laws of the 48 states.

4. The ratio of losses to premiums written is an important indication of the cost of operating the company. A company with low losses in relation to premiums written is more likely to be able to provide better protection than a company sustaining a high ratio of losses. If a company has been highly selective and insures good risks it can operate more efficiently and may be able to extend more liberal terms to policy holders.

5. Cities usually consider the financial and general management of the company when placing municipal insurance. Guides such as *Best's Insurance Guide* or *Dun and Bradstreet* are consulted since they supply a wide variety of data regarding financing, general management, and scope of operations. Most insurance specifications require that an insurance company be licensed to operate within the state and have a rating of A or better in the latest edition of *Best's Insurance Guide*.

6. The chief administrator should determine in advance that the company selected has a good reputation for settling claims, that it has an adequate number of adjusters in the general area, and that it has an agent located in or near the city. An insurance company that lacks adequate staff and local agents is usually not in a good position to render prompt and efficient service.

7. One of the most important factors to be considered when selecting an insurance carrier is to choose an organization which has the technical competence and interest in rendering sound technical advice on a continuing basis. Insurance companies will provide periodic boiler inspection, assist in the planning of sprinkler systems, make recommendations regarding driver training programs, provide technical assistance in promoting shop safety, and last, but not least assist the chief administrator in determining the specific risks and hazards to be included or excluded in the insurance program.

Some cities have chosen to place their insurance planning in the hands of a consultant rather than relying only on the advice of insurance agents. In some cities the assistance of competent insurance company representatives is not available.

The problem invariably arises as to how a city may accept the lowest bid and at the same time be assured that it will receive the best insurance service. In awarding the bid for municipal insurance, it is imperative that the lowest responsible bid be accepted— that is, the bid that will yield the city the greatest protection in coverage, services, and prevention of hazards. It may be false economy for a city to place its insurance with the lowest bidder rather than the most responsible bidder.

Prior to the selection of an insurance carrier, the chief administrator should review the insurance program with the city attorney to clarify that the plan to be adopted is entirely within the framework of existing laws. This is particularly true if insurance is to be taken out in a factory mutual or if an assessable policy is to be purchased.

Other Types of Insurance Protection

State Insurance Fund. State insurance funds have been used with varying degrees of success

in several states. Today such funds are primarily used for providing workmen's compensation insurance. The advantage of a state fund is that the cost of placing insurance may be lower. This may be due to the fact that underwriting expenses are lower, that the fund is not required to pay a profit to stockholders, and that such funds are not subject to taxation.

No Insurance. A situation of "no insurance" exists when no reserves or allowances are set aside to cover property losses or claims against the city. It is planned that any such losses that are incurred will be paid out of current revenues. A plan of no insurance is desirable only for those cities whose budgets are large enough to sustain these losses.

Self-Insurance. A "self-insurance" plan involves the setting up by the city of a reserve fund to pay for losses inflicted upon the city. There are many requirements, however, that must be met before a sound self-insurance fund can be established. A large number of units of property must be included in the program so an accurate prediction of losses can be made. Each separate parcel of property should have somewhat uniform values, and the program should exclude excessively large risks. Those of approximately the same degree of hazard should be covered and extremely hazardous risks insured separately. Risks should be scattered and independent of one another so that the possibility of catastrophic loss will be minimized. If the risk is slight and the value involved is small or if the risk is frequent but again the amount involved is small, a self-insurance plan may be satisfactory. Self-insurance funds should be created gradually and property should be brought under the plan gradually, only as the fund is built up. Highly professional management is necessary to administer such a fund. This coupled with the fact that large reserves are required for such a program, makes it rather out of reach for a small city.

Partial Insurance. "Partial insurance" is a modification of the self-insurance and no insurance plans. It provides that risks too large for the city to assume should be exempt from the self-insurance plan since adequate protection would require too large a fund to be sustained. Extraordinary risks too large for the self-insurance fund to cover are usually placed with a private insurance carrier.

Unexpected "abnormal" losses in addition to anticipated "normal" losses should be considered, and experience over a period of only 10 years time does not indicate what is going to happen in the future. Even with a self-insurance plan, provision should be made for inspection, fire prevention activities, and other safety measures to hold losses to a minimum.

Fire Insurance

Fire insurance is a general title given to a class of insurance which covers a variety of risks on public buildings. In addition to protection against fire, an extended coverage fire insurance policy will normally protect the city against such losses as those caused by hail, wind storm, earthquake, or other catastrophe. In many instances vandalism and malicious mischief insurance are included in a fire insurance policy.

Inventory Records. The first step in planning a city's fire insurance program is to require that all property be clearly defined and recorded on a form such as that shown in Figure 1. This requires the chief administrator to prepare a property schedule including the following information:

1. The name of the building and index number to be placed on the property information register.

2. The precise location of the building.

3. The use or occupant of the building.

4. The type of construction of the building (frame, brick, concrete, etc.)

5. Size, cubic footage, and square footage with number of stories, amount of usable floor space, etc.

6. The cost when built, evaluation at most recent appraisal, and date of most recent appraisal.

7. An accurate description of the contents of the building and their appraised value.

Figure 1

INSURANCE INFORMATION REGISTER

Index No. ______

Location of Land Parcel	Location of Building	Year Built
Type of Construction	Original Cost	Yearly Depreciation
No. of Stories	Floor Space (sq. ft.)	Cubic Feet

Record of Repairs, Additions and Losses Sustained

Date	Description	Cost

Present Value of Property

Date	Contents Description	Appraised Value	Value of Building	Value of Land and Buildings

Remarks

Figure 2

REAL PROPERTY LEDGER: A Record of Land, Land Improvements and Buildings-Owned by

Index No. ________

INDIVIDUAL DEED RECORD

Department:	Use:	(PHOTO)
Plat Book Page: / Assessor's Parcel No.:		
Last Assessed Value: Land: Bldg. Total: Date:	Area:	
Appraisal: Land: Bldg. Total: Date:	Cost Record: Appraisal Fee : Negotiator's Fee : Title Service : Court Costs : Recording Fees : Land Cost : Other : TOTAL :	Location:
Fund Used:		Legal Description:
Accounts Code No.: Account Title:		
Type Conveyence: City No.: Date:		
Instrument No.:	Legislation: Type Ord.: No.: Date:	Disposition Recommended:
Recorded-Book No. Page Date:		
Grantor(s):		
Former Use: ☐ Business ☐ Industrial ☐ Residential ☐ Farm ☐ Vacant ☐ Other	Reversion Clause? (If Yes, give conditions)	Disposition Made:

Such a schedule should also include space for insurance information and provision for information to be attached after the insurance program is decided upon. If the city has not done so previously the administrator should first inventory all property and record each item of real and personal property including land and buildings on separate cards. The cards might be patterned after that shown in Figure 1. These cards should be indexed so that property cards can be readily extracted and should be kept up to date as property is disposed of or acquired.

If the city has already prepared a "Real Property Ledger" similar to the one shown in Figure 2, as was suggested in MIS Report No. 129, *Management of City-Owned Real Estate*, the insurance data shown in Figure 1 might be recorded on the reverse side of this form. If no record of real and personal property inventory has yet been undertaken, it is desirable that one set of inventory records be created that will provide property information needed for all city departments. By placing Figure 1 and Figure 2 on the same card, a complete set of property information that should meet the needs of all city departments will be available.

If the city has competent staff available, it may be able to perform its own appraisal services. Many small cities lack such personnel, however, and in this case a city which has never inventoried its property should hire a competent appraisal consultant. Not only will such appraisal advice help the city utilize coinsurance provisions in its fire insurance and otherwise improve its insurance program, but this will also inform the city regarding the true value of all of its real and personal property. Property should be reappraised at least once every five years. Insurance companies can provide some appraisal assistance in order that the coinsurance clause can be utilized in fire insurance.

Coverage. After determining what properties require protection, the amount of insurance coverage should next be determined by the chief administrator based on one of the following alternatives:

1. Full coverage. The property is insured at its full replacement value as nearly as can be determined. Such coverage is usually expensive, however, and probably unnecessary.

2. Partial coverage. Under this plan the property is insured for a part of its replacement value and the city is protected up to the amount of the policy. Such coverage may be justified since due to construction and location it would be impossible for fire to completely destroy the building. Full coverage usually is too expensive, and, regardless of the risk involved, a small municipality often can afford only partial coverage on the building.

3. Self-insurance. Under this plan the city carries its own insurance and pays its own losses from a fund established for such a purpose.

4. No insurance. This differs from self-insurance since no fund is created out of which losses can be paid. Losses are paid for simply as they occur and usually out of general funds.

5. Coinsurance. This is a plan whereby the insured shares a portion of the risk with the insurance company. It is usually coupled with an agreement to the effect that the company offers a reduced rate per $1,000 worth of insurance in return for the insured carrying an amount of insurance equal to an agreed upon percentage of the total value of the building. If the insured drops below this percentage agreed upon, he does not become a coinsurer but merely loses the benefit of the reduced rate. The percentage usually agreed upon is 80 or 90 per cent coinsurance. Such clauses are applied only to buildings of superior fire resistant construction and those that are adequately protected with automatic sprinklers. Credit of about 25 per cent may be given in the building fire rate when the 80 per cent coinsurance clause is used on brick buildings. On fire resistant buildings the rate of credit may reach 70 per cent.

Since it is generally recommended that ordinary brick buildings with wooden floors and roof should be insured for about 80 per cent of their value anyway, the rate credit should be realized. The 80 per cent coinsurance clause should also be taken to check this value periodically during the policy term. Lack of compliance with coinsurance requirements may lead to an unsatisfactory loss adjustment. If the city has been carrying $300,000 on a building for years and after a fire the insurer agrees that the actual loss and damage by fire is $100,000, it is disappointing to find that only $50,000 to $70,000 of insurance can be collected. It is also difficult to explain to constituents that the coinsurance requirement of 80 or 90 per cent had not been complied with.

Insurable value is generally defined as the replacement cost new, less observed physical depreciation, and less, in some degree, depreciation for obsolescence on the day of the fire. Replacement cost, new, at any given time is not difficult to determine. Depreciation is more difficult and sometimes requires an appraisal firm's advice. Insurance companies will furnish appraisal service of varying degrees of merit with the understanding that they are not bound by the appraisal.

Some feel that buildings of fire resistant construction, especially those with largely incombustible content, should be insured for only a fraction of their value, if at all. If this is done the coinsurance clause and its attendant rate credit cannot be used. If such a building is valued at $500,000, it might be insured for $150,000 at a rate of 40 cents per $100 for $600 in premiums per year. But if it is insured for $400,000 with the 80 per cent coinsurance clause at the rate of 12 cents per $100, the premium is $480 per year. Therefore the man suggesting $150,000 insurance actually is espousing the spending of $120 useless and waste premium.

It is difficult to generalize regarding the hazards that should be insured against by a city. This is a matter that must be determined at the local level based on past experience. If the chief administrator has not already done so he should analyze past records in order to determine what losses have been sustained and what losses if any have not been adequately covered by insurance. If it is determined that the same kind of losses occur repeatedly, preventive steps should be taken by the city. Inadequate protection may be caused by poor engineering and safety factors which have not kept pace with the times. In this regard the chief administrator, if he lacks complete records of past experience, may have to rely heavily on the advice of insurance agents. The prevailing practices used in the locality for insuring comparable buildings, owned privately and publicly, might be surveyed.

What properties should be omitted from fire insurance coverage? First consideration should be given to buildings and contents of high value under one roof or adjacent to each other. Where values are subject only to one fire damage which would materially impair the municipality's financial position, these should be insured since in cases where the hazard or likelihood of fire is remote the rate of premium will be low. In cases where the hazard and consequently the rate is high, making insurance costs burdensome, then consideration should be given to reducing the hazard with installation of sprinklers, improvements in construction, or other methods to reduce the premium.

The city should exclude from coverage only those structures and their contents of such value that destruction of any one could be absorbed as an expense without serious damage to the annual budget. This amount differs with the size of city and its financial condition. In a small city, $500 to $1,000 is a sensible assumption of risk for any one location. This may eliminate insurance on park shelters, bleachers, small tool sheds, toilets and comfort stations, and similar items.

The first step would be to list on the register each building the city or village owns, regardless of size or value, and estimating its value and the value of its contents. Next would be to secure the insurance rates applicable to each from a local agent and compute the established premium for each structure. If the city has 20 locations, for instance, each worth less than $1,000, the total value of such locations is $10,000 costing premiums of $125 per year. If five years pass without a fire loss (a not uncommon record), the city has saved $625 in premiums. From then on any loss of $625 or less in any one year finds the city ahead of the insurance company without having risked losing any large amount that could not be absorbed as expense. In the meantime such a program should not be embarked upon without careful study; no two cities are exactly the same, and consideration must be given to the individual risks and characteristics encountered.

Specifications. After the city has determined the risks that should be covered, the amount of coverage needed, and the items for which insurance is not necessary, the chief administrator can set out to prepare specifications inviting insurance agents or companies to bid on the city's fire insurance. Included in Exhibit A is a well prepared set of specifications for the purchase of fire insurance used by Merced, California (20,000).

These specifications permit a wide variety of alternative bidding on the city's fire insurance by inviting bids for fire insurance coverage only, for fire and extended coverage, and for vandalism and malicious mischief. By providing these three alternatives the city will be given an opportunity to choose from all the bids received whether it wishes to purchase a blanket policy for fire,

extended coverage, and vandalism and malicious mischief or whether it is for one reason or another the more sound practice to insure for fire, extended coverage, and vandalism and malicious mischief through individual policies. This will also give the city an opportunity to notice the extent to which any real discount is being rendered by the bidder for a blanket policy. Blanket policies usually result in either reduced cost or additional coverage when compared with individual policies.

These specifications also provide alternatives for the city in regard to the duration of the insurance policy it finally chooses. For example, bids are requested for policies of one, two, three, four, or five years duration. Bids for these various durations of time are requested for each of the three alternatives of coverage. Savings are often accomplished if policies are issued for longer than one year. The five-year premium is usually four times the one year premium. This would appear to give the city free insurance once in five years by purchasing on a five-year basis. Comparisons should be made, however, with quotations on the three, four, and five-year basis. An argument often advanced against the five-year term is that values may change upward or downward in periods of fluctuating prices before expiration of the policies. If cancellation provisions are provided for in the insurance policy, however, or are mentioned in the specifications there is nothing to prevent the city from cancelling its policy and recalling for bids in order to take advantage of lower premiums occurring at a later time.

In order to provide the insurance company with complete and reasonably accurate information, the city of Merced has supplied the prospective bidder with an "Inventory and Valuation for Fire Insurance Coverage," more commonly known as its insurance register. This lists all property to be insured under its fire policy and the estimated values of this property. By showing all relevant cost factors, including the original cost estimate, replacement cost, estimated depreciation, and the net cost of individual buildings and contracts, less exclusions, the chief administrator is then able to clarify to the bidder the exact extent and amount of coverage the city desires.

The specifications state, "This is submitted as information only and is not a part of the specifications themselves." The city has also included a loss record showing the dates of loss as far back as they have been recorded, the type of loss sustained, and the amount collected in claims. This provides the insurance company with some idea of the experience this city has sustained.

Another well prepared bid sheet (Exhibit B) is that used by Grosse Pointe Woods, Michigan (10,000). This sheet lists each of the locations to be covered under the city's fire insurance policy and the appraised value of the structures and their contents. The published rates of the state inspection bureau are shown on the bid sheet for the information of the insurance company and so that the city may accurately compare the bids submitted. By having this information in advance the chief administrator and the bidder can readily compute the extent to which the premium bid submitted deviates from the published rates of the inspection bureau.

Public Liability, Property Damage, Equipment and Fleet Insurance

Public liability insurance is purchased by the city in order to protect the city and its employees from citizen claims for bodily injury and property damage incurred on city property. Most damage claims against the city are for injuries or damages resulting from accidents in parks or on sidewalks and for automobile damage caused by holes in the street pavement. Many cities insure for liability resulting from the operation of motor vehicles, other mobile equipment, and liability in all other fields of city activity, in one comprehensive liability policy.

From the financial standpoint, what kind and how much liability and property damage insurance should the city purchase? How much, if any of the risk need not be insured, and what type of protection is needed? What should be the provisions of the policy, particularly as to governmental immunity?

Governmental Immunity. Cities are being held responsible for a growing number of torts, and the theories of the protection of the public funds and the doctrine of governmental immunity are undergoing serious attack in the courts, the legislatures, and in legal periodicals.

There have been legal reactions against municipal purchase of public liability insurance. Courts in Tennessee and Illinois have held that the purchase of public liability insurance creates a

fund for the payment of claims, removes the reason for governmental immunity, and therefore constitutes a waiver of such immunity. While this is not a majority view it points to a definite judicial reaction in this regard.

A second fact that is becoming more apparent is the trend of state legislatures to increase municipal tort liability. Originally municipal corporations were subject to the same tort liability as privately owned corporations. However, when the essential normal operation of municipal government was placed in peril by the financial burden of paying the costs of litigation to reimburse injured persons, the courts then became concerned for the interests of the communities as distinguished from the rights of the individual. The theory of the protection of the public fund then evolved, and distinctions between governmental and proprietary functions were evolved by the courts.

The problem lies in determining which functions are in the performance of duty owed to the citizens of the city and which functions are carried out by the city as the agent of the general government. Stated another way, the distinction between governmental and proprietary functions is whether the function benefits the public as a whole or is limited to the benefit or profit of the residents of the municipality. If it is for the benefit of the public as a whole it is subject to no liability; if it is not, then liability attaches to the city for the performance of a proprietary function for the convenience and necessity, primarily, of municipal residents.

In some states municipalities still do not have legislative authority to purchase liability insurance with public funds. Some states have enacted laws setting ceilings on the amount which may be recovered in court actions against the cities. For cities within these states the cost of insuring for municipal tort liability will be affected. Insurance policies often contain a "no-action" clause which states as follows: "No action shall lie against the company . . . until the amount of the insured's obligation to pay shall have been finally determined either by judgement against the insured after actual trial or by written agreement of the insured, the claimant, and the company." This clause relieves the insurance company of paying if the city has been found not liable for the injury. In other words the liability of the company is contingent upon the legal liability of the city.

For full protection the liability policy should also contain the so-called "municipality endorsement" which reads generally as follows: "In consideration of the premiums charged for the policy to which this endorsement is attached, it is understood and agreed that the company will not avail itself of the legal immunity to which the insured may be entitled by reason of its being a public institution and agrees to handle any claim covered by this policy as through the insured's legal status was that of a private corporation."

Such a clause makes the insurance company liable for payment to a third party regardless of the legal liability of the municipality. It recognizes the desire of the city as a moral obligation to extend protection to any person injured by the tort of the municipality. An insurance company writing a policy of this kind containing such an endorsement could not assert, as a defense to payment, that the insurance policy constitutes an illegal expenditure of public funds.

According to the 1956 *Municipal Year Book*, 36 per cent of the 738 cities surveyed carry no general public liability insurance while 12 per cent do not carry motor vehicle liability insurance. The city attorney and finance officer should work closely together in the evaluation of the risk to be insured. The attorney should know the decisions of the courts and the trend of decisions, including the size of judgements that can be anticipated in actions filed against the city, and should prepare specifications accordingly for the purchase of public liability insurance.

Policy Coverage. A well integrated program of automobile liability and general public liability insurance involves basically (1) determination of the coverage required, (2) development of the contract form, (3) purchase of the insurance, and (4) review and control. A city will often find it advantageous to include under a blanket policy its general liability and property damage; liability coverage for its automobiles, trucks, and road equipment; and liability coverage for all other equipment owned by the city. Adequate coverage can only mean complete protection for the municipality from tort liability of every description. This insurance should cover not only the city but anyone connected with the city (its appointed or elected officials, officers, agents, employees, and authorized representatives when acting in their capacity as such with the city). Liability of these persons for reimbursement of money or property losses to the city growing out of malfeasance in office should,

however, be excluded from the liability coverage and provided for by honesty bonds. (Public employee bonds are discussed below).

Amounts and limits of coverage must be determined individually by the city and will be dependent upon the type, extent, and locations of the municipal plant; types of services performed; numbers and types of vehicles; number of employees; and similar data used to evaluate hazards and potential risks involved. Since the dollar amount of coverage is a relatively unimportant factor in determining premium costs, the coverage should be sufficiently high to give protection against what might reasonably be considered a maximum risk. Limits of liability should apply only to individual accidents without any aggregate limit during the term of the policy in order to provide complete protection regardless of the number of claims filed.

Some provisions that should be included in liability coverage are automatic inclusion of vehicles, streets, buildings, grounds, or other property added or constructed subsequent to the issuance of the policy. Such acquisitions should be reported to the company within a definite period of time, but such provisions should assure the city of protection whether the notification is given or not. A schedule of vehicles, streets, buildings, grounds, and other property should accompany specifications sent to the insurance company. It should be specified that any error or omissions will not operate to the prejudice of the city and that property inadvertently omitted or erroneously described shall be included under the policy from the inception date of the policy.

If automobiles and other vehicles not owned by the city are operated on official business this phase of municipal activity should be protected to the same extent as other risks. Premium adjustments on vehicles or other property acquired or disposed of during the policy period should be provided for through an "audit premium." This term, "audit premium," applies to a premium which is revised at the end of the year when the insurance carrier's auditor analyzes the risk. If any change in rate has occurred within the prior fiscal year the insured is billed this additional amount. If the insured has favorable experience within the period, he is granted, after audit, a credit premium which is generally deducted from his next billing. In addition to a change of rates, other factors which affect audit premiums are loss experience, accident frequency, and existence of uncorrected hazards.

A statement should be included to cover all liability, subject to the express limits of the liability, attaching to the city and rising out of use, operation, maintenance, or ownership of motor vehicles. Injury or death sustained in motor vehicle accidents also should be covered for interest costs, legal, and other expenses arising in connection with a claim. A similar provision covering property damage is usually contained in the policy. This policy should cover liability to all appointed or elected officials, agents, employees, or representatives acting in behalf of the city.

The insurance company should be required to make progress reports to the city as well as a final report of the disposition and total amount of money paid upon settlement of each claim in order that the city may develop and maintain an experience record. Provisions should be made to the effect that statements submitted by the city in writing or otherwise are not warranties but merely provide information for the company and should be verified by the company. The city should not assume responsibility for providing information on the basis of a guarantee or warranty, and the company should investigate all hazards and potential risks.

In case a standard insurance policy does not adequately serve the city's purposes, an additional rider or endorsement to the policy is necessary so that the terms of the endorsement or rider shall supersede, control, or override any of the conditions of the policy itself. For example, if the city is to provide any form of comprehensive coverage for its motor vehicle fleet against loss due to fire, hail, windstorm or other acts of God, it is necessary that additional provisions be required in the blanket public liability, property damage, and fleet insurance policy. Premiums for this form of coverage are usually low.

Based on past experience a city may or may not choose to obtain collision insurance on its motor vehicle fleet. Such insurance protects the city against damages inflicted on its own motor vehicles. This is usually written with a deductible feature of no less than \$50 and in multiples of \$100 to \$150 or higher deductible features. The lower the deductible feature the higher the premium since a greater number of losses are covered through a low deductible provision.

Due to high premiums many cities have found it unnecessary to carry this form of insurance. The savings in premiums can be applied toward any damages inflicted upon city vehicles through collisions, and cities have not incurred a high number or high degree of collision expenses. If a city operates its own garage and can economically repair its vehicles, there would be even less need for collision insurance. If the general area is one in which the liability insurance is carried by most drivers either voluntarily or through compulsion, there is a greater likelihood that the city can recover from the other driver's insurance carrier than if the city lies in an area in which there are a large number of uninsured vehicles on the streets.

Ways to reduce premium costs without sacrificing protection are: (1) Direct payment by the city of minor damage claims, such as broken windows, without reference to the insurance company. A claim of $25 or less often costs that much or more to process. (2) Establish a safety committee to review accidents where city officials are at fault. Training and educational program for operators of equipment will develop safer and better drivers. Mechanical failures which result in accidents can be reduced by stepping up the preventive maintenance program. (3) Select a carrier that can provide the city with superior inspectional and engineering services. These are a value in reviewing and investigating hazardous conditions and recommending corrective measures. The company will also be willing to assist in developing safety and educational programs.

Specifications. Factors to be considered in preparing specifications for equipment, fleet, and public liability insurance are:

1. Provide up to three years coverage with payment of the three-year premiums in three annual installments, once each year in advance. The city may receive the benefit of a reduced annual premium without the need for making payment at one time for the entire period.

2. Cancellation provisions should be provided for. Five days written notice is generally considered proper. A cancellation clause should provide for the refunding of the excess paid above the pro-rated premium for the expired period.

3. Attached to the specifications should be the following: (a) a schedule of vehicles owned by the city detailed as to make, year, type, engine number, capacity, and location; (b) a schedule by departments of equipment, buildings, grounds, and other property together with data as to exact locations and descriptions. Descriptions should include size, type of construction of buildings and other structures, area of grounds, types of equipment installed on the ground such as playground equipment and similar information; (c) an information sheet describing the city, its area, elevation, population, and similar data; (d) a sheet outlining automobile and public liability experience of the city for as long a period as possible — 10 years is not too much. This information should include the amount of premium paid yearly, the amount of claims paid, the adjustment expenses, the legal expenses, and the amount of reserve accumulated. These should not be a part of the specifications, however.

A well prepared set of specifications for blanket insurance covering motor vehicle fleet, general public liability, and property damage is shown in Exhibit C. These are the specifications for Merced, California, which like the fire insurance specifications, provide for the submission of alternative bids for either a one-year or a three-year period. Such a format permits the city to compare the discount granted for a three-year period with the rate charged for only one year of coverage and allows a company to submit alternative bids.

These specifications also call for the insurer to cover all noncity-owned vehicles which are used on city business. Unique coverages in these specifications are "Products Liability Coverage" and "Products Property Damage" coverage. This protects the city if an accident occurs when goods are sold, and possession is relinquished by the city. In the case of Merced, the major exposures are gasoline sold at the municipal airport and the chemical used for spraying city trees. If either of these products causes an injury or property damage, the city is protected from any liability. This coverage costs the city of Merced only $70 per year. Accompanying these specifications is a liability exposure schedule relating important information about the city such as its streets, a breakdown of its employees, a listing of city real estate, motorized equipment, a description of the airport, and a breakdown of park equipment.

In order to obtain the most reasonable premium possible this city advertises for its fire and liability insurance at the same time and attaches the following statement to its specifications: "Proposals may be submitted on both fire and liability coverages. Any company or agency bidding on both fire and liability insurance, and whose quotations are contingent on receiving the award of both coverages, must so state in writing on the proposal form."

Self-Insurance. An increasing number of communities are faced with insurance companies refusing to write certain liability and property damage insurance. These cities are forced to self-insure a portion of their tort liability. This stems from the large number of costly claims filed against the city for injuries and property damage inflicted on motorists or pedestrians because of deformities on the streets, sidewalks, parks, or other city property.

Faced with this situation the city has no alternative but to set up a self-insurance reserve unless experience has already proven that such uninsurable losses can be sustained from current revenues. The chief administrator can hold such losses to a minimum by launching an effective safety campaign to eliminate such hazards, lessening the frequency and seriousness of such claims. The city can also adopt a policy of settling potential claims quickly, out of court, before they have an opportunity to "snowball" into costly and lengthy litigation.

Public Employee Bonds

Statutory Bonds. There are two general groups of public official bonds: statutory and nonstatutory. Statutory bonds are those required by law, charter, or ordinance, and their conditions are specified in the law. These provisions usually call for bonding with a faithful performance of duty bond which requires the official to be not only honest but also to diligently and faithfully perform his duties. Such bonds are usually written for a term which coincides with the term to which the official has been elected or appointed and may not be terminated prior to the legal expiration of his term or prior to his death, removal, or resignation. If the official is appointed for an indefinite term his bond may also be indefinite in term.

Nonstatutory Bonds. Nonstatutory bonds while not required by law are requested by careful public bodies. These may take the form of individual definite-term, faithful performance of duty bonds; individual indefinite-term, faithful performance of duty bonds; public official, name-schedule bonds for a definite term; and public official, name-schedule bonds for an indefinite term.

Name Schedule Bond. Name schedule bonds are used to cover groups of employees, those not requiring coverage under an individual bond. The definite-term, name schedule bond is used to cover a group of subordinates to a public official elected or appointed for a definite term; while the indefinite-term, name-schedule bond is used for employees who are operating under civil service or who are otherwise appointed for an indefinite term.

Position Schedule Bond. A position schedule bond is similar to a name schedule bond except that it provides protection to a department by position rather than by name of employee. Under a name-schedule bond or an individual bond the surety company must be notified upon a transfer or vacancy, and often a premium charge is levied. Under the position schedule bond, since the position rather than the individual is bonded, changes in personnel may be made without advising the surety company. A position schedule bond is usually written for an indefinite term and is cancellable only in accordance with its provisions. Elected officials and those appointed for a definite term should not be included under such coverage.

Blanket Bonds. Since it is difficult to select with certainty those public officials and employees who cause losses either through dishonesty or through neglect of their duties, it is desirable for cities to take out public employee blanket bonds. There are two general types of public employee blanket bonds: (1) dishonesty bonds — those bonds which limit coverage to any loss incurred by dishonest acts (thefts, embezzlement, forgery); (2) faithful performance of duty bonds, previously discussed, which provide coverage for dishonest acts in addition to protection for losses resulting from the nonfaithful, but not necessarily dishonest, performance of duties (malfeasance, misfeasance, and nonfeasance).

The dishonesty bond protects against acts of nonstatutory employees in offices where the main hazard is that of dishonesty, while the faithful performance of duty bond is designed to extend protection where faithful performance of duty is inherent in the nature of positions to be covered, where duties are carefully defined by law, and where any breach of these statutory directions may constitute nonfaithful performance. Subordinates of these officials should also be bonded for faithful performance of duties. Faithful performance blanket bonds answer this need. The hazards existing in particular offices should be the criteria in determining whether a faithful performance coverage or dishonesty coverage is to be written. For example, in finance departments, employees should be covered by faithful performance of duty bonds, while in other departments dishonesty coverage is satisfactory.

These two types of bonds may be written in either of the following forms: (a) The aggregate penalty form which covers up to the amount of the bond any act or series of acts culminating in a single loss regardless of the number of people involved. In effect, it covers each bonded employee up to the amount of the bond. However, when two or more employees act in collusion to create a loss, the penalty of the bond is only the maximum coverage for that particular loss. Coverage under this bond is automatically reinstated, however, for any other employee or employees not involved in the original loss. (b) The multiple penalty form covers each bonded employee up to the amount of the bond. In other words the total value of the bond equals the amount of the bond times the number of the employees covered.

Extent of Coverage. Governmental units may be bonded either with a blanket bond or with individual departmental bonds. Under a complete blanket bond all departments are lumped together, while under the single blanket bond each department is rated separately. The former method gives the public body the advantage of a lower premium. Blanket bonds (aggregate penalty forms) may be issued in a minimum penalty of $10,000, in larger amounts in multiples of $2,500 up to $25,000, and above $25,000 in multiples of $5,000. Blanket position bonds may be issued in a minimum penalty of $2,500 and in larger amounts in multiples of $2,500 up to amounts of $10,000. Due to the cost factor, bonding of all employees was formerly impractical since each bond was rated so much per $1,000 on each position and no difference in rating procedure was permitted if 10 or 100 employees were bonded. Under the blanket bond a new rating procedure has been established taking into consideration the hazard involved to the surety company on three general categories of employees which for the sake of illustration could be called high hazard, medium hazard, and low hazard. Comparing the cost of bonding by the conventional method, bonding under the blanket bond method will disclose considerable savings in the actual dollar expenditures which a public body may realize.

While most public bodies have bonded only certain employees, endeavoring to prejudge which ones could cause a loss, experience has shown the fallacy of such a method. A city expending a certain amount for bonding a limited number of employees, would through blanket bonding of all employees, realize a considerable savings if the total protection coupled with the cost is considered. In one small city of under 10,000 population, 20 employees were bonded in amounts of $1,000 to $10,000 at an annual cost of $295. The city purchased a $5,000 faithful performance of duty position bond with specific additional protection on two of the positions of $5,000 each for a total cost of $399.72 to cover all of its 82 employees.

Another city of 60,000 previously bonded 115 employees by a position schedule bond in amounts from $1,000 to $25,000, at an annual cost of $1,672. Under the blanket bonding program the city now has a $100,000 blanket bond at an annual cost of $2,005, covering 800 employees.

The usual alternative methods for paying bond premiums are as follows: (1) annual; (2) two years in advance with a 7.5 per cent discount; (3) three years in advance with a 16.67 per cent discount; (4) three years on a budget plan with 50 per cent of term premium the first year, 30 per cent the second year, and 20 per cent the third year, a 16.67 per cent discount and a 5 per cent charge for the budget feature; (5) four years in advance with a 16.67 per cent discount; (6) four years on a budget plan with 40 per cent of term premium for the first year, 30 per cent the second year, 15 per cent the third year, and 15 per cent the fourth year with a 16.67 per cent discount plus a 5 per cent charge for budget feature.

There are no charges or deductions for normal increase or decrease of employees during the

premium period, except where a merger or consolidation occurs. Where an abnormal increase or decrease takes place due to the hiring of seasonal help, the premium charge is computed both on the normal and maximum number of employees. The difference between the normal and maximum number of employees, prorated for the period of activity, is charged for the additional employees.

Amount of Coverage. How large a bond penalty should be set on an official? This will require that the statutes be complied with but, in the absence of statutory regulations, the amount on an individual basis should equal the largest amount of funds (that is, cash, checks, and securities) under the control of the official in his office, bank, and safe deposit boxes at any one time. The theory behind this is that an official cannot abscond with more than he has on hand at any one time. Such a plan does not always adequately protect the public body from hidden losses which accumulate over a period of years, and this is the type of shortage that usually develops.

For blanket bonding a different gauge must be used. Generally the bulk of municipal employees can be covered under a dishonesty bond in an amount sufficient to cover ordinary, day-to-day transactions. Consideration should be given to the actual dollar exposure in any activity, and it may be advisable to bond a great majority of employees under a $10,000 honesty blanket position bond. If the city also operates a utility which accounts for several hundreds of thousands of dollars worth of income, special consideration should be given to an excess blanket bond on the utilities alone in an amount to cover the existing exposure.

For fund handling officers and their subordinates, a faithful performance of duty blanket bond should be used which will protect against loss of funds or property due to dishonesty in addition to malfeasance, misfeasance, and nonfeasance of the bonded employees, either alone or in collusion with others. Usually finance, court recording, and auditing personnel should have such coverage. A combination of dishonesty coverage on a majority of employees and faithful performance protection on key personnel usually results in a comprehensive and economically sound bonding program.

In cooperation with the American Institute of Accountants, the Surety Association of America conducted a 10-year study called *Dishonesty Losses*, including insured and uninsured losses. A formula has been developed for arriving at reasonable catastrophic coverage. This formula with modifications can be applied to the official and blanket bond amounts for public bodies. The following procedure for estimating necessary coverage is suggested for all blanket bonding when the annual premium is over $150:

1. Set down the amount of gross annual receipts from all sources.

2. Add to this the market value of all negotiable securities of which the city has physical possession and custody, whether they be city-owned or collateral security for bank deposits.

3. Take 10 per cent of the total. This represents the exposure index.

4. From Table 1 determine the appropriate bond penalty.

Preparation of Specifications. There are two reasons for bidding on public officers' and employees' bonds: (1) to get a low premium cost for the bonding program, and (2) to comply with the city charter or the laws of the state that require such a procedure. It is necessary that the public official have the best possible program before a loss occurs and a payment is required. The assistance of a qualified underwriter should be obtained in order that local needs can be analyzed and alternative programs from which the city may choose can be provided. Such services and protection seldom come through a call for bids based on the chief administrator's estimate of the bonding problem. Adequate protection requires the assistance of someone qualified by nation-wide experience. Companies who have been writing this business for many years on a nation-wide basis are in a position to give the chief administrator good service. Other communities may prefer to hire a bonding consultant.

When calling for bids the requirements the city should impose are:

1. The surety company should furnish its financial statement for the last fiscal year.

2. The company should advise how long it has been engaged in the writing of public official bonds and indicate its state and nation-wide premium figures for the preceding five years.

Table 1

SUGGESTED MINIMUM AMOUNTS OF BONDING COVERAGE

Exposure Index	Bracket No.	Amount of Bond
$ Up to -- $ 25,000	1	$ 15,000 -- $ 25,000
25,000 -- 125,000	2	25,000 -- 50,000
125,000 -- 250,000	3	50,000 -- 75,000
250,000 -- 500,000	4	75,000 -- 100,000
500,000 -- 750,000	5	100,000 -- 125,000
750,000 -- 1,000,000	6	125,000 -- 150,000
1,000,000 -- 1,375,000	7	150,000 -- 175,000
1,375,000 -- 1,750,000	8	175,000 -- 200,000
1,750,000 -- 2,125,000	9	200,000 -- 225,000
2,125,000 -- 2,500,000	10	225,000 -- 250,000
2,500,000 -- 3,325,000	11	250,000 -- 300,000
3,325,000 -- 4,175,000	12	300,000 -- 350,000
4,175,000 -- 5,000,000	13	350,000 -- 400,000
5,000,000 -- 6,075,000	14	400,000 -- 450,000
6,075,000 -- 7,150,000	15	450,000 -- 500,000
7,150,000 -- 9,275,000	16	500,000 -- 600,000
9,275,000 -- 11,425,000	17	600,000 -- 700,000
11,425,000 -- 15,000,000	18	700,000 -- 800,000
15,000,000 -- 20,000,000	19	800,000 -- 900,000
20,000,000 -- 25,000,000	20	900,000 -- 1,000,000
25,000,000 -- 50,000,000	21	1,000,000 -- 1,250,000
50,000,000 -- 87,500,000	22	1,250,000 -- 1,500,000
87,500,000 -- 125,000,000	23	1,500,000 -- 1,750,000
125,000,000 -- 187,500,000	24	1,750,000 -- 2,000,000
187,500,000 -- 250,000,000	25	2,000,000 -- 2,250,000
250,000,000 -- 333,325,000	26	2,250,000 -- 2,500,000
333,325,000 -- 500,000,000	27	2,500,000 -- 3,000,000

3. The company should state the number of full-time employees, including claim employees, it has within the state and show the location of its permanent offices within the state.

4. The invitation to bid should contain provisions retaining the right (a) to reject all bids, (b) to accept any bids or programs which are for the best interests of the city, and (c) to award to that company which is best qualified to give good service, even if such bid is not the lowest.

Exhibit D shows the invitation to bid for a public employee faithful performance, blanket position bond as prepared by Grosse Pointe Woods, Michigan. This city has chosen to bond all of its employees for faithful performance. The specification sheet shows that each employee is bonded for $10,000 with the exception of the city administrator and the city clerk-comptroller who are bonded for $100,000 each since these are principal fund holding officers. This set of specifications call for blanket bonding of all employees' positions shown on the specifications and those which may be added or deleted at a future time. These specifications also call for a three-year bond with premiums to be paid annually. The financial practices of the city such as its annual audit and the experience of the city with regard to fidelity losses are also mentioned.

Workmen's Compensation Insurance

In some states, all municipal employees and officers are required by law to be covered for workmen's compensation. In a few states only those workers employed in certain of the more haz-

ardous occupations must be covered. Most states fall within these two extremes and usually exclude elected officers and certain appointed officials.

Types of Injuries. The six types of injuries or disabilities for which workmen's compensation awards are made are as follows:

1. Death. Loss of life of the injured, regardless of the time that elapses between the date of injury and the date of death.

2. Permanent total disability. Injury other than death which permanently and totally incapacitates the injured person from following any gainful occupation.

3. Permanent partial disability. Injury other than death or permanent total disability involving (a) complete loss of any member of the body or part thereof, (b) a permanent impairment of any function of any member of the body or part thereof. A permanent partial injury may, because of any earlier permanent partial injury, result in permanent total disability. In other words, one industrial accident following another of a permanent partial nature will make the person eligible for permanent total disability.

4. Temporary total disability. This applies to any injury other than death, permanent total disability, or permanent partial disability which in the opinion of a doctor, makes it impossible for the worker to return to work on the calendar day following the day on which the injury occurred or on some later day. The term "disability" means inability to work; for statistical purposes this inability applies to every day during the disability period including Sundays and holidays during which the worker normally would not have worked.

5. Temporary partial disability. Injuries other than death, permanent total disability, permanent partial disability, or temporary total disability, which in the doctor's opinion make it possible for the injured person to return to work but not to his regular job on the calendar day following the day on which injury occurred or some later day. In many states temporary partial disabilities are not recognized under workmen's compensation laws.

6. First-Aid case. This applies to any injury other than the aforementioned which receives at least first-aid or medical treatment but which in the opinion of the doctor does not make it impossible for the injured person to return to his regular job at or before the start of the next calendar day following the day on which the injury occurred. These are usually not covered by workmen's compensation laws.

Three alternative methods of providing workmen's compensation coverage are as follows:

1. Place the insurance either with an insurance company or a state fund. Seven states require that workmen's compensation insurance be carried through a state fund. In other states, workmen's compensation insurance must be placed with private insurance companies. In several states cities can choose between the state fund or a private insurance company.

2. The city may set up a self-insurance reserve and pay claims out of these reserves. Cities may self-insure for temporary total and temporary partial disability, but usually place permanent disability insurance with a private company. In addition to the creation of such a fund the city may purchase "excess insurance" to cover extraordinary losses. For example, to insure individual losses for over $25,000 is usually inexpensive. With this excess coverage the insured pays the first $25,000 of the claims and the company pays the balance of the claim. This insurance covers only one accident, however, and a series of accidents which individually cost over $25,000 in the aggregate could require the fund to expend a great deal more than $25,000.

3. The city may simply gamble on losses, not set up any fund, and pay losses as they occur out of current revenues. This is certainly a very undesirable practice for a small city.

Costs. A comparison of self-insurance costs with the costs of corporate insurance is misleading unless unpaid but incurred indebtedness of past accidents is included in self-insurance costs. If self-insurance is carried, it is important to compare the costs of complete discharge of liability for all times and all accidents occurring in the year to what corporate insurance costs would have been.

In buying workmen's compensation insurance from an insurance company, the chief

administrator should explore the available insurance market for standard coverage at the lowest possible cost. While basic policy rate modifications by credits or debits for previous loss records are quite standard, there are numerous underwriting plans available in companies of all classes which offer economies based on the insurance company's profit-and-loss experience of its over-all business or on the risk itself or a combination of the two. Only a study of the characteristics of the individual account and the applicability of available rating plans can be used to determine the best method for a particular city.

Workmen's compensation premiums are based on payrolls. Every time an employee is added or a raise in salaries and wages is granted, premiums will go up. Experience is also a factor in the cost of workmen's compensation insurance. Premium rates are based on accident experience over the past three years, and rates can be reduced by as much as 75 per cent through accident prevention.

In buying workmen's compensation the city may take advantage of "retrospective rating plans" which are offered by some companies. This permits the city to save money depending on accident experience records of previous losses. If losses are low, this premium is less than a standard premium. However, if losses are high, this premium is much higher than standard premiums. In other words, the insured shares the risk with the company. For example, a certain county paid $30,000 for workmen's compensation insurance premiums, this being the standard premium. Had this community elected to take one of the retrospective rating plans, it could have had the same coverage for $19,574 gross with a minimum premium of only $6,987. However, there would have been a maximum premium of $51,414. Had this county elected to take the retrospective rating plan it could save over $10,000 in insurance premiums but risked spending up to $21,414 more for this coverage.

Specifications. Exhibit E shows a well prepared set of specifications used by Holland, Michigan (16,000), for the purchase of workmen's compensation insurance. Within the specifications is stated the minimum amount of employer's liability that may be included; a requirement that rates be broken down for each job classification shown in the specifications; a requirement that the bidder tell the extent to which rates have been modified based on loss experience, and, if so, the percentage of debit or credit that is being applied. Specific provisions for submitting "retrospective rating plans" are also contained in this set of specifications. It is required that any discounts be clearly stated and that the city require increased liability requirements for its volunteer and regular firemen on duty outside the city limits.

It is important that a city provide adequate coverage for workmen's compensation for the following reasons:

1. Social concepts applicable to industrial accidents apply equally to the city.

2. Rather than being involved in litigation and being held liable for injuries of employees, the city may find it much less expensive to protect itself from such action on the part of employees.

3. Workmen's compensation may be used as an inducement to attract and hold competent people in public employment by providing a source of benefits to the injured employee as well as an administrative procedure whereby the employee may be certain of receiving his benefits without court action.

Other Forms of Insurance Coverage

Boiler Insurance. This coverage is important for the safe operation of boilers, pressure vessels, and heavy equipment that produce energy or motion. With this kind of insurance the city receives benefits before a loss occurs since the carrier spends in excess of 45 per cent of the premium for the inspection services it renders. Periodic inspection minimizes the chance of explosion or mechanical breakdown involving expensive buildings and equipment.

Boiler and machinery insurance is sometimes included in the general public liability and property damage policy or it may be insured under a separate policy. A well prepared set of specifications may call for bids for insurance coverage of up to three years; accompanying the invitation to bid and specifications should be a list and complete description of all boilers and machinery to be covered.

Burglary and Robbery Insurance. Four types of burglary and robbery insurance may be purchased by cities: interior robbery insurance, messenger robbery coverage, safe burglary, and a broad form of money and securities insurance. Interior robbery insurance protects the city from the taking of money, securities, and other properties from a custodian in a building; messenger robbery insurance provides coverage for losses resulting from the robbery of a messenger. Safe burglary insurance provides protection from losses caused by the felonious taking of money, securities, or property from a safe or vault by means of force; broad form money and securities insurance coverage is an all-risk type of policy.

Several factors affect the premium rate for robbery and burglary insurance. These include the number of officials on duty, the use of police or guards, the installation of an alarm system, the use of certain types of safes, and the use of protective devices. This insurance coverage is limited to persons not employed by the municipality since public employee bonds cover any losses resulting from acts of persons under employment by the city. Cities have obtained some of their greatest savings through purchasing this insurance through competitive bidding.

Personal Property Floater. Some cities insure pieces of personal property against loss or theft such as expensive movie projectors, cameras, amplifying equipment, and other individual items. Such policies often are relatively inexpensive.

Further Information: (1) The following pages contain appendices and a bibliography to provide more information in developing a municipal insurance program. (2) A variety of specifications, different from those shown in the appendices to this report and for other special forms of municipal insurance, are available on loan to MIS subscribers. (3) A list of insurance consultants is available on request.

Acknowledgements. Grateful acknowledgement is made to the city officials who supplied first-hand information for this report. Special thanks are due the following persons who reviewed this report: Russell J. Cooney and E. D. Hand, Jr., city manager and city purchasing agent, respectively, Merced, California; Robert L. Funk, assistant director, Municipal Finance Officers' Association; H. H. Holt, city manager, Holland, Michigan; William H. Lange, city administrator, Grosse Pointe Woods, Michigan; F. Samuel Ostertag, assistant city manager, Corpus Christi, Texas; and A. A. Weinberg, Certified Public Accountant, and consulting actuary, Public Administration Service.

Note. This report was prepared by David U. Fitzcharles, staff member, the International City Managers' Association.

Appendix A

CITY OF MERCED

PROPOSAL FORM AND SPECIFICATIONS
for furnishing
BLANKET FIRE INSURANCE

July 21, 1953

TO: CITY OF MERCED (Purchasing Department):

We submit the following quotation/s of premiums required to insure the City of Merced pursuant to these specifications:

ALTERNATE I: For fire insurance coverage *only*.

A. Total premium for 5-year period $ ____________
B. Annual installments
1st $ ____________________
2nd $ ____________________
3rd $ ____________________
4th $ ____________________
5th $ ____________________

ALTERNATE II: For fire and extended coverage.

A. Total premium for 5-year period $ ____________
B. Annual installments
1st $ ____________________
2nd $ ____________________
3rd $ ____________________
4th $ ____________________
5th $ ____________________

ALTERNATE III: For fire and extended coverage and vandalism and malicious mischief.

A. Total premium for 5-year period $ ____________
B. Annual installments
1st $ ____________________
2nd $ ____________________
3rd $ ____________________
4th $ ____________________
5th $ ____________________

BIDDERS CONTINGENCY STATEMENT (if any)
(If any of these proposals are contingent upon receiving award of *both* fire and liability insurance, bidder must use this space to so state. Or, if a different premium would apply if you received only one or both, use the space to make such a statement.)

FIRM: ________________________

Signed by: ____________________

Title: ________________________

Address: ______________________

Date: _________________________

SPECIFICATIONS

1. RATING:

Insurance Company must be a California admitted company and have a rating of A plus 3 A's or better in the latest edition of "Best's Insurance Guide," and bidder must state name of the company or companies for whom he submits a proposal.

2. TERM:

Proposals must be submitted for *5* year policy commencing August 22, 1953.

3. FORM OF POLICY:

Public Properties Form. Sample copy of policy must be submitted with proposal.

4. PREMIUM PAYMENT:

Annual premium payments requested. Proposals must indicate the amount of each of five annual premium payments required. Each installment will be payable on August 22nd of each succeeding calendar year after the 1st which is payable August 22, 1953, or as soon thereafter as the City is billed.

5. ACCOMPANYING STATEMENT:

Letters or statements from insuring company (not agent), must accompany proposal stating as follows:

(a) That agent submitting bid is a regularly appointed agent and that such agent has maintained a bona fide insurance office in the City of Merced for at least one year prior to the submission of said bid, and that said company will continue to have a bona fide agent in the City of Merced, California, during the life of the policy.

(b) Each bidder shall state the name of the insurance company, furnish a copy of its latest sworn financial statement which shall not antedate December 31, 1952.

6. INSURABLE VALUE:

The City of Merced has determined that the total insurable value less exclusions is $705,700.00 and that (in round figures) 90% would be $635,000.00. A copy of an inventory and estimated value of buildings and contents is attached for use of companies and agents. The City of Merced does not guarantee that this is complete and accurate in every detail and it is understood that it is presented as information only. We believe it to be reasonably accurate. Values set forth are estimates.

7. COVERAGE:

90% average clause. Face of policy $635,000.00. Proposals may be submitted on any or all alternates appearing on proposal form, *but are requested for each* of the alternates.

8. SUBMISSION OF PROPOSALS:

Proposals may be submitted on fire coverage contingent upon the same company or agent receiving the award for *both* fire and liability insurance; or proposals may be submitted on liability insurance contingent upon same company or agent receiving award for *both* liability and fire. This must be so indicated. Proposals must be on official proposal form (a part of these specifications). They must be delivered *in a sealed envelope* to the Purchasing Agent of the City of Merced not later than 10:00 A.M. on the 14th day of August, 1953 (PACIFIC DAYLIGHT TIME).

INVENTORY AND VALUATION FOR FIRE INSURANCE COVERAGE - JULY, 1953 - CITY OF MERCED

BUILDING	ORIGINAL COST		ESTIMATED RE-PLACEMENT COST		ESTIMATED DEPRECIATION		NET		EXCLUSIONS	INSURABLE VALUES LESS EXCLUSIONS		
	Building	Contents	Building	Contents	Building	Contents	Building	Contents		Building	Contents	Total
Fire Station No. 3	$ 20,250.	$- - -	$ 22,000.	$ 1,000.	$- - -	$- - -	$ 22,000.	$ 1,000.	$ 2,200.	$ 19,800.	$ 1,000.	$ 20,800.
Fire Station No. 2	20,250.	- - -	22,000.	1,000.	- - -	- - -	22,000.	1,000.	2,200.	19,800.	1,000.	20,800.
Fire Station Central	104.957.		130,000.	30,000.	- - -	- - -	130,000.	30,000.	15,000.	115,000.	30,000.	145,000.
Sewage Plant (includes pump house, garage & Imhoff tank)	165,367.		180,000.	700.	- - -	- - -	180,000.	700.	10,000.	170,000.	700.	170,700.
Animal Shelter	1,300.	- - -	1,300.	- - -	- - -	- - -	1,300.	- - -	- - -	1,300.	- - -	1,300.
Ladies Restroom	- - -	- - -	10,000.	800.	6,500.	400.	3,500.	400.		3,500.	400.	3,900.
City Hall	80,691.	- - -	100,000.	33,000.	- - -	- - -	100,000.	33,000.	9,000.	91,000.	33,000.	124,000.
McNamara Park Bleachers (280)	- - -	- - -	800.	- - -	300.	- - -	500.	- - -		500.	- - -	500.
McNamara Park Grandstand	- - -	- - -	1,500.	- - -	300.	- - -	1,200.	- - -		1,200.	- - -	1,200.
McNamara Park Dugouts (2)	- - -	- - -	1,000.	- - -	200.	- - -	800.	- - -	600.	200.	- - -	200.
McNamara Park Restroom & Shed	- - -	- - -	3,500.	100.	500.	- - -	3,000.	100.	200.	2,800.	100.	2,900.
McNamara Park Pump House	- - -	- - -	100.	300.	- - -	- - -	100.	300.		100.	300.	400.
McNamara Park Memorial Plunge	39,840.	- - -	44,000.	500.	- - -	- - -	44,000.	500.	5,000.	39,000.	500.	39,500.
Civic Baseball Park Restroom	- - -	- - -	2,000.	- - -	1,000.	- - -	1,000.	- - -		1,000.	- - -	1,000.
Civic Baseball Dressing Room	5,000.	- - -	5,000.	- - -	- - -	- - -	5,000.	- - -	500.	4,500.	- - -	4,500.
Civic BaseballGrandstand (3000)	- - -	- - -	9,000.	- - -	6,000.	- - -	3,000.	- - -		3,000.	- - -	3,000.
Applegate Park Scout Hut	- - -	- - -	6,500.	150.	500.	- - -	6,000.	150.	1,000.	5,000.	150.	5,150.
Applegate Park Feed Barn	- - -	- - -	1,000.	- - -	500.	- - -	500.	- - -		500.	- - -	500.
Applegate Park Residence	- - -	- - -	10,000.	- - -	2,000.	- - -	8,000.	- - -		8,000.	- - -	8,000.
Applegate Park Office	- - -	- - -	1,000.	1,300.	250.	- - -	750.	1,300.		750.	1,300.	2,050.
Applegate Park Restroom #2	3,300.	200.	3,300.	200.	- - -	- - -	3,300.	200.	300.	3,000.	200.	3,200.
Applegate Park Lath House	- - -	- - -	100.	- - -	- - -	- - -	100.	- - -		100.	- - -	100.
Applegate Park Garage	- - -	- - -	3,000.	9,000.	500.	3,000.	2,500.	6,000.		2,500.	3,000.	5,500.
Applegate Park Rose Patio	- - -	- - -	2,000.	- - -	500.	- - -	1,500.	- - -		1,500.	- - -	1,500.
Applegate Park Feed House	- - -	- - -	600.	100.	300.	- - -	300.	100.		300.	100.	400.
Applegate Park Duck Aviary & Pond	- - -	- - -	- - -	- - -	- - -	- - -	- - -	- - -		200.	100.	300.
Applegate Park Pump House	- - -	- - -	200.	5,000.	100.	1,000.	100.	4,000.	2,000.	100.	2,000.	2,100.
Applegate Park Restroom #1	4,400.	- - -	4,400.	100.	- - -		4,400.	100.	400.	4,000.	100.	4,100.
Applegate Park Bird Aviary										500.	200.	700.
Applegate Park Wood Fence										300.	- - -	300.
Corp. Yard Office Building	6,090.	- - -	6,100.	- - -	- - -	- - -	6,100.	3,200.	500.	5,600.	3,200.	8,800.
Corp. Yard Garage	- - -	- - -	20,000.	- - -	5,000.	- - -	15,000.	10,000.	2,500.	12,500.	10,000.	22,500.
Corp. Yard Storage Shed (Alley)	- - -	- - -	18,500.		3,500.		15,000.	1,500.		15,000.	1,500.	16,500.
Corp. Yard Storage Shed (13th St.)	- - -	- - -	7,500.	- - -	1,000.	- - -	6,500.	- - -		6,500.	1,500.	8,000.
Airport Flammable Shed										100.	- - -	100.
Airport Restroom	- - -	- - -	600.	- - -	300.	- - -	300.	- - -		300.	- - -	300.
Airport House and Garage	- - -	- - -	10,410.	- - -	2,410.	- - -	8,000.	- - -		8,000.	- - -	8,000.
Airport Sewer Pump House	- - -	4,000.	900.	5,000.	400.	1,000.	500.	4,000.	2,000.	500.	2,000.	2,500.
Airport Cloverleaf Hangar	10,500.	- - -	11,000.	400.	- - -	- - -	11,000.	400.	500.	10,500.	400.	10,900.
Airport Hangar 3 - Area A	4,000.	- - -	13,000.	- - -	3,000.	- - -	10,000.	- - -		10,000.	- - -	10,000.
Airport Hangar 2 - Area A	8,900.	- - -	12,000.	- - -	3,000.	- - -	9,000.	- - -		9,000.	- - -	9,000.
Airport Hangar 1 - Area B	- - -	- - -	16,000.	- - -	7,000.	- - -	9,000.	- - -		9,000.	- - -	9,000.
Airport Quonset Shed										1,000.	- - -	1,000.
Airport Hangar 5 - Area B	- - -	- - -	27,000.	- - -	17,000.	- - -	10,000.	- - -		10,000.	- - -	10,000.
Airport Hangar 4 - Area A	12,440.	- - -	15,000.	- - -	3,000.	- - -	12,000.	- - -		12,000.	- - -	12,000.
Airport Water Pump House	- - -	- - -	600.	800.	- - -	- - -	600.	800.	400.	600.	400.	1,000.
Airport Water Pump House	- - -	- - -	600.	500.	- - -	- - -	600.	500.	400.	600.	100.	700.
Airport Office	- - -	- - -	- - -	- - -	- - -						1,800.	1,800.
										TOTAL		$705,700.

Appendix B

CITY OF GROSSE POINTE WOODS, MICHIGAN

BID SHEET

HAZARD INSURANCE
Policy from July 1, 1957 through June 30, 1962

LOCATION	VALUATIONS		MICHIGAN INSPECTION BUREAU PUBLISHED RATES* Fire & Lightning (annual)	Extended Coverage (annual)	Vandalism & Malicious Mischief (annual)	TOTAL PREMIUM for 5 Years
Pump Station	Building	$23,400**	.045	.016	.01	$ ______
1250 Torrey Rd.	Contents	98,500**	.045	.016	.01	$ ______
Pump Station	Building	22,500**	.065	.016	.01	$ ______
20910 Marter Rd.	Contents	70,000**	.077	.016	.01	$ ______
(Hollywood at Marter)						
Municipal Building	Building	75,000**	.195	.012	.004	$ ______
20775 Mack Avenue	Contents	25,000**	.281	.012	.004	$ ______

*with Co-Insurance Credit

TOTAL . . . . $ ______

Less Dividend, if any . . . . $ ______

TOTAL NET PREMIUM for 5 years, exclusive of all taxes . . . . $ ______

**These amounts represent 100% of the current appraised value of the building and contents.

RENTAL VALUE INSURANCE (Optional)

Total Premium for 5 years . . . . $ ______

Less Dividend, if any . . . . $ ______

TOTAL NET PREMIUM for 5 years, exclusive of all taxes . . . . $ ______

BIDDERS COMPANY NAME ______

BIDDERS ADDRESS ______

______

SIGNED BY ______

TELEPHONE NUMBER ______

TO BE PLACED WITH ______
Company Name

DATE ______

Note: Each bidder must submit his Bid on this Bid Sheet.
Should he desire to submit additional Bid data, it may be on separate sheets attached to this Bid Sheet.

Appendix C

CITY OF MERCED
PURCHASING DEPARTMENT

PROPOSAL FORM AND SPECIFICATIONS
for furnishing

BLANKET FLEET, GENERAL PUBLIC LIABILITY AND PROPERTY DAMAGE INSURANCE

in accordance with these specifications:

ALTERNATE I: (Premium for *one-year* period beginning August 22, 1955)

1.	Automobile Bodily Injury Coverages	$250/500,000.00	$ ________
2.	General Bodily Injury Coverages	$250/500,000.00	$ ________
3.	Automobile Property Damage	$25,000.00	$ ________
4.	General Property Damage	$25,000.00	$ ________
5.	Products Liability Coverage	$250/500,000.00	$ ________
6.	Products Property Damage	$25,000.00	$ ________
	Total Premium for one year		$ ________

ALTERNATE II: (Premium for *three-year* period beginning August 22, 1955)

1.	Automobile Bodily Injury Coverage	$250/500,000.00	$ ________
2.	General Bodily Injury Coverage	$250/500,000.00	$ ________
3.	Automobile Property Damage	$25,000.00	$ ________
4.	General Property Damage	$25,000.00	$ ________
5.	Products Liability Coverage	$250/500,000.00	$ ________
6.	Products Property Damage	$25,000.00	$ ________
	Total Premium for three years		$ ________

FIRM: ________________

Signed by: ________________

Title: ________________

Address: ________________

Date: ________________

SPECIFICATIONS

1. RATING:

Insurance Company must be a California admitted company and have a rating of A or better in the latest edition of "Best's Insurance Guide," and bidder must state the name of the Insurance Company for whom he bids. Such company must assume entire insurance involved but may reinsure.

2. TERM:

Proposals may be submitted for either one or three-year policies or both commencing at 12:01 A.M., August 22, 1955, and subject to cancellation in accordance with the policy provisions, except that cancellation by company shall be upon 30 days notice.

3. ASSURED:

Policy to insure the CITY OF MERCED, as now or hereafter constituted, and including appointed or elected executive officials and/or officers and/or agents and/or members of boards and commissions and/or other representatives when operating in their capacities as such on behalf of said City as if specifically insured.

4. FORM OF POLICY:

Policy shall be on Blanket or Comprehensive Bodily Injury Liability and Property Damage form. All liability coverage to be on occurrence basis, property damage on either occurrence or accident basis.

5. PREMIUM PAYMENT:

Full year in advance if one year coverage is purchased; or, on a three-year policy, premium payable in three annual installments on the 22nd day of August of each year beginning August 22, 1955. All installments subject to adjustment on each annual anniversary date based on changes in exposure (if any) as of each annual anniversary date. Earned premium shall be computed in accordance with the premium condition as set forth in the company's policy.

6. ACCOMPANYING STATEMENT:

Letters or statements from insuring company (not agent) must accompany bid stating as follows:

(a) That agent submitting bid is a regularly appointed agent and that such agent has maintained a bona fide insurance office in the City of Merced for at least one year prior to the submission of said bid, and that said company will continue to have a bona fide agent in the City of Merced, California, during the life of the policy capable of adequately servicing the policy.

(b) Each bidder shall state the name of the insurance company, furnish a copy of its latest sworn financial statement which shall not antedate December 31, 1954, and which shall show at least $2,000,000.00 combined capital and surplus.

(c) Submitting company must include in its bid a written agreement, if it is successful in obtaining this coverage, to submit to the City of Merced at least every six months a written engineering report to be filed with the City of Merced of a personal physical inspection of all properties and locations involved, with suggestions for improvements and safety, and premium savings. The successful bidder shall also furnish loss experience information once each year or oftener if requested by the City.

7. ENDORSEMENTS:

Policy is to be issued free of endorsements excepting name of assured, (if necessary), and any other endorsements necessary to comply with these specifications. Sample policy and endorsements if any shall be attached to each bid.

8. COVERAGE OF NON-CITY-OWNED VEHICLES:

(a) The company shall agree to insure the assured against any and all liability imposed upon or attaching to said assured in consequence of or arising out of the use, maintenance or operation of any automobile, and/or motor vehicles, and/or vehicles, and/or trailers by whomsoever or however operated or employed, together with all interest, costs, legal or other expense arising out of or in connection with claim, demand or legal proceedings, whether groundless or otherwise.

(b) Should any official, agent, employee or authorized representative of such municipality be named in any action or legal proceeding resulting from a claim for bodily injury and/or death and/or property damage, and merely because of his official or other connection with such municipality, this company will assume like responsibility therefore to the extent of his liability as such officer, agent, employee or authorized representative.

9. APPROXIMATE EXPOSURES:

Attached hereto is a tentative approximate list of exposures for review only, and for the investigation of the submitting carrier.

10. SUBMISSION OF PROPOSALS:

Sealed bids shall be delivered to the Purchasing Agent of the City of Merced, not later than 10:00 o'clock A.M. on the 12th day of August, 1955. Envelope containing sealed bid must be marked on the face as follows:

BID — CITY OF MERCED
BLANKET BODILY INJURY LIABILITY
AND PROPERTY DAMAGE INSURANCE

FROM ______________________________
AUTHORIZED AGENT OF

____
INSURANCE COMPANY

11. ACTION BY COUNCIL:

Bids will be opened publicly by the Purchasing Agent in the presence of the City Clerk at 10:00 A.M., August 12, 1955. Award will be made by the Council promptly after receiving the tabulation of bids at the regular meeting of August 15, 1955.

The Council of the City of Merced reserves the right to reject any and all bids or portions of any and all bids or waive any informality on a bid.

BRIEF ANALYSIS OF LIABILITY EXPOSURE

Given as Information only and not for Specifications:
As of 7-20-53

LOCATION OF PREMISES: In the City of Merced and elsewhere in the State of California

1. Miles of City Streets - - - - 61
2. Miles of City Alleys - - - - 22
3. Annual City Payroll - - - - $450,000.00 (approximate)
4. Products — Gas & Oil at Airport - - - - 25,000.00 (average)
5. Number of Employees - - - - 120
6. City Properties

NAME	LOCATION	DIMENSIONS (ft)	ACRES
Applegate Park	26th & "N"	Irregular	26.5
McNamara Park	11th & "N"	400 x 947	8.7
Stephen Leonard Park	West 6th & "T"		5.0 Approx.
Civic Ball Park (Leased)	11th & "G"		10.0 Approx.
Fire Station & City Hall	18th & "M"	100 x 150	0.3
Old City Hall	524 - 18th	25 x 150	0.1
Old City Dump	8th & "G"	Irregular	4.4
Sierra Crest	23rd & Orchard	Irregular	0.2
Airport Extension	Childs & West	Irregular	4.6
Old Corporation Yard	13th & "I"	100 x 150	0.3
Corporation Yard	13th & "I"	150 x 400	1.4
City Airport	Childs & 1st		480.0
City Dump & Sewer Farm			343.0
Parking Lot #1	18th St. between L & M	150 x 150	0.52
Parking Lot #2	18th St. between K & J	75 x 150	0.25
Parking Lot #3	18th St. between N & O	100 x 150	0.3
Parking Lot #4	18th St. & "N" St.	125 x 150	0.47
Fire Station #3	27th & K Streets	150 x 200	0.69
Fire Station #2	11th & L Streets	Pt. of McNamara Park	

7. City Vehicles [partial list, illustrative only]

YEAR	MAKE	SERIAL/MOTOR NO.	DEPARTMENT
1940	Ford Pickup	J85840352	Police
1948	International Dump	BLD25058758	P. W.
1948	Plymouth Sedan	P15833595	Police
1949	Chevrolet Sedan	GAA790692	P. W.
1950	Ford Pickup	98RC461931	P. W.
1950	Ford Dump	97HTH249606	P. W.
1936	International Dump	HD306740	P. W.
1941	Dodge Truck Dump	N195754	P. W.
1944	Dodge Truck Dump	T120-49290	P. W.
1950	Ford Truck Pickup	98RC453238	P. W.
1937	Dodge Pickup	104-4187B	Engineering
1948	Chevrolet Truck Dump	N235374	P. W.
1948	Chevrolet Pickup #20	N271947	P. W.
1948	Dodge Dump	T150-10463	P. W.
1948	International Pickup	RD214226433	Fire
1948	Dodge Pickup	T42-54011	P. W.
1948	Studebaker Dump	3-R10370	Parks
1948	Dodge Truck Dump	N281356	P. W.
1929	GMC (American LaFrance) Fire truck	2363356	Fire

CITY OF MERCED EXPERIENCE RECORD
for the period July 22, 1952 to June 30, 1953
(Prepared by present carrier for the City of Merced)

CLAIM NO.	DATE OF LOSS	AMOUNT PAID	RESERVE	TYPE
P43-0-6453-G	7/31/52	$ 5.00		APD
0-6454-G	8/6/52	5.00		APD
0-6763-G	8/27/52	5.00		APD
0-7524-G	10/20/52	5.00		APD
0-7646-G	10/13/52	14.00		APD
0-7943-G	10/24/52	5.00		APD
0-7944-G	11/9/52	---		APD
5-575 -G	8/17/52	61.00		GBI
5-723 -G	12/9/52	55.00		GBI
0-8426-G	11/9/52	5.00		APD
0-8706-G	11/9/52	---		APD
0-8707-G	12/6/52	5.00		APD
0-9424-G	12/1/52	5.00		APD
0-9425-G	1/14/53	5.00		APD
0-10215-G	4/27/53		$ 25.00	APD
5-744 -G	11/15/52	10.00		GBI
5-829 -G	2/28/53	78.00		GBI
5-873 -G	1/1/53		500.00	GBI
5-874 -G	1/1/53		250.00	GBI
5-875 -G	1/1/53		750.00	GBI
5-876 -G	1/1/53		250.00	GBI
5-965 -G	5/20/53		500.00	GBI
5-977 -G	5/18/53		25.00	GBI
8-556 -G	1/1/53		500.00	GPD
		263.00	2800.00	

SUMMARY:

Total Paid	$ 263.00
Total Reserves	2800.00
Total APD Claims and reserves	84.00
Total GBI Claims and reserves	2479.00
Total GPD Claims and reserves	500.00
	$3063.00

CITY OF MERCED LOSS RECORD
for the period July 6, 1949 to April 8, 1952
(Prepared by previous carrier for the City of Merced)

CLAIM NO.	DATE OF LOSS	TYPE	AMOUNT PAID	DATE CLOSED
A223762			Not known	
A224159			Not known	
A250647	3/10/50	GBI	$3,552.50	9/22/51
A250647	3/10/50	GPD	175.00	9/22/51
A250666	3/1/50	APD	None	5/11/50
A250672	1/30/50			
	Re-opened			
	10/ /51	GL	2,716.69	10/5/51
A251055	3/12/50	PD	Not known	
A251074	3/18/50	PD	Not known	
A269996	3/ /50	GL	None	8/31/50
A269998	5/17/50	GL	1,038.80	10/5/51
A270261	7/25/50	BI	Not known	
A307980	9/5/50	GPD	25.19	11/24/50
A308008	9/27/50	GPD	12.00	11/29/50
A308240	9/27/50	GPD	16.00	3/8/51
A308254	11/2/50	PD	11.81	12/21/50
A308262	11/10/50	PD	None	12/28/50
A370144		AL	None	8/ /51
A404754	7/17/51	PD	51.64	8/28/51
A420359		BI	None	11/1/51
A420360		AL	None	9/ /51
A420394	6/8/51	PD	39.19	8/7/51
A420446	7/13/51	GL	10.00	9/6/51
A420460	6/27/51	GL	30.00	9/5/51
A420670	9/ /51	PD	18.25	10/18/51
A442277	10/31/51	PD	98.91	2/29/52
A501028	12/13/51	GPD	35.00	2/21/52
A501064	1/7/52	GL	None	4/18/52
A501072	1/12/52	PD	None	2/29/52
A501108	2/7/52	PD	None	3/25/52
A501118	2/7/52	PD	None	5/20/52
A501502	1/13/52	PD	Not known	
A501504	2/6/52	GL	None	5/19/52
A501533	3/10/52	GPD	None	5/7/52
A501562	4/8/52	PD	7.50	4/24/52
		TOTAL	$7,838.48	
		Miscellaneous claims*	139.41	
		TOTAL PAID OUT IN CLAIMS	$7,977.89 **	

*This figure represents small claim payments under which we do not have the complete records in our office; we have marked these as "Not known." Also, there may be several other claims of which we have no record at all.

**This figure may be broken down as follows

General Liability	$7,347.99
General Property Damage	263.19
Automobile Property Damage	227.30
	$7,838.48
Miscellaneous	139.41
	$7,977.89

Note: There are also reserves set up in the amount of $2,915.00 to cover 8 claims now pending.

Note: There are also 8 new claims that have recently been reported since the above figures were compiled and on which the information is not complete.

Appendix D

CITY OF GROSSE POINTE WOODS, MICHIGAN

NOTICE TO INSURANCE AGENTS AND/OR BONDING COMPANIES

The City of Grosse Pointe Woods, Michigan will receive bids for a

$10,000 PUBLIC EMPLOYEES FAITHFUL PERFORMANCE
BLANKET POSITION BOND

for three years, providing $90,000 excess on two employees.

Sealed Bids will be received until 3:00 o'clock P.M. Eastern Standard Time on Wednesday, August 14, 1957 at the office of the City Clerk, City Hall, 20775 Mack Avenue, Grosse Pointe Woods 36, Michigan, at which time and place bids will be publicly opened and read aloud.

Specifications and Bid Sheets may be obtained from the office of the City Clerk.

Effective period of this Bond is to be from August 20, 1957 for a full three-year period ending August 20, 1960.

The City reserves the right to reject any or all bids, to waive any informality in the bidding and to accept any bid it deems to be in the best interests of the City.

CITY OF GROSSE POINTE WOODS

H. L. BRAUNS, City Clerk

CITY OF GROSSE POINTE WOODS, MICHIGAN

BID SHEET

PUBLIC EMPLOYEES FAITHFUL PERFORMANCE BLANKET POSITION BOND

The total premium for a Public Employees Faithful Performance Blanket Position Bond as defined in the specifications which are made a part hereof, less discounts, etc. earned as indicated, will be:

	Premium for 3 years
Total Premium	$ ______________
Less discounts, etc. earned	$ ______________
TOTAL NET COST TO CITY FOR 3 YEARS	$ ______________

and will be placed with ____
Name of Surety Company

NOTE:
Bid Sheet should be sealed in an envelope addressed to:

City Clerk
City of Grosse Pointe Woods
20775 Mack Avenue
Grosse Pointe Woods 36, Michigan

Bearing the following notation:

Bid on Public Employees Faithful Performance
Blanket Position Bond to be opened 8-14-57 at 3:00 PM

NOTE:
Bidder may, at his discretion, add other pertinent facts or data which he might deem desirable, but his bid MUST BE ON THIS SHEET.

AGENT ______________________________

Address ______________________________

Signed By: ______________________________

____
Title

Telephone No: ______________________________

Date: ______________________________

NAME OF SURETY COMPANY ______________________________

CITY OF GROSSE POINTE WOODS, MICHIGAN

SPECIFICATIONS

PUBLIC EMPLOYEES FAITHFUL PERFORMANCE BLANKET POSITION BOND

1. Bids are solicited for a blanket bond in the amount as shown below for all employees presently shown or to be added or deleted at any future time.

2. This bond shall be in effect from August 20, 1957 for a full period of three years ending August 20, 1960, with premiums paid annually.

3. Bidders shall specify the surety company with whom such bond will be placed which must be acceptable to the City.

4. Data as to employees of record as of August 20, 1957 are expected to be as follows:

EMPLOYEES	BOND DESIRED
1 Mayor and 1 Mayor Pro Tem.	$ 10,000 each
1 City Administrator	$100,000
1 City Clerk-Comptroller	100,000
1 City Assessor	10,000
1 Administrative Assistant	10,000
2 Secretaries	10,000 each
5 Office Assistants	10,000 each
1 Telephone Operator	10,000
1 Office Janitor	10,000
1 Director of Public Safety	10,000
3 Lieutenants (A)	10,000 each
4 Sergeants (A)	10,000 each
22 Patrolmen (A)	10,000 each
1 Court Clerk	10,000
13 Crossing Guards	10,000 each
1 Superintendent of Water Service	10,000
1 Water Billing Clerk	10,000
2 Water Operators (B)	10,000 each
1 Superintendent of Public Works	10,000
1 Public Works Foreman	10,000
2 Public Works Mechanics	10,000 each
12 Public Works Operators	10,000 each
1 Supt. of Building Inspection & Storm Water Pumping	10,000
1 Assistant	10,000
1 Pump Station Attendant	10,000
1 Director of Parks & Recreation	10,000
1 Assistant	10,000

5. It is agreed and understood that an audit is made annually of all City operations by a firm of certified public accountants.

6. If desired, all employees will be requested to fill out an individual application for bonding as specified by the bonding company.

7. There have been no fidelity losses of any kind or nature for a period of five years immediately preceding the date hereof.

(A) Only the desk man on each shift issues drivers licenses and collects the fees
One man also assists on parking meter collections

(B) One man assists on weekly parking meter collections

Appendix E

BIDS WANTED

Sealed bids will be received by the City of Holland for Workmen's Compensation Insurance.

Specifications are attached for your use if you desire to bid on this coverage.

Bids must be in the City Clerk's office by 5 p.m., Friday, December 27, 1957.

Bids are to be enclosed in sealed envelopes marked "Bid on Workmen's Compensation Insurance and Comprehensive General Liability Insurance."

The right is reserved to reject any or all bids.

C. Grevengoed,
City Clerk.

Dated at Holland, Michigan,
December 5, 1957.

CITY OF HOLLAND EMPLOYEES

Number of Employees	Code Number	Classification	Estimated Annual Payroll	
		General City		
18	8810	Clerical Office Employees, N.O.C.	$ 65,000.00	
11	9410	Municipal Employees, N.O.C.	46,000.00	
28	5509	Street or Road Maintenance by Municipal Employees	112,000.00	
32	7720	Policemen	95,500.00	
33	7704	Firemen	81,500.00	
8	9182	Athletic Teams or Parks	2,600.00	
17	9102	Parks, N.O.C.	52,000.00	
14	9220	Cemetery Operation	36,500.00	
8	8838	Public Libraries or Museums	23,000.00	$514,100.00
		Hospital		
121	8833	Hospitals — Professional Employees	300,500.00	
65	9040	Hospitals — All other Employees	98,500.00	399,000.00
		Board of Public Works		
3	9410	Municipal Employees, N.O.C.	15,600.00	
9	8810	Clerical Office Employees, N.O.C.	38,000.00	
43	7539	Electric Light or Power Co. N.O.C.	214,000.00	
13	7520	Waterworks Operation	62,000.00	
4	7580	Sewage Disposal Plant Operation	18,400.00	348,000.00
		TOTAL		$1,261,100.00

EXPERIENCE INFORMATION

The following information has been furnished by the present insurance carrier, as to payments made by them:

Workmen's Compensation:

Dec. 22, 1955 to Jan. 1, 1957	$1,539.
Jan. 1, 1957 to Sept. 1, 1957	1,701.

Liability:

1953-1954	4 accidents	$2,565.
1954-1955	4 accidents	130.
1955-1956	9 accidents	3,562.
Jan. 1, 1957 to Sept. 1, 1957		271.

SPECIFICATIONS FOR WORKMEN'S COMPENSATION COVERAGE

Proposal is to include:

1. Employers' Liability limit not less than $100,000.00.
2. A statement breaking down rates for each code classification given in attached employee summary.
3. Proposal to state if rates quoted have been modified for loss experience, and, if so, the exact percentage of credit or debit applied.
4. If any plan known as "Retrospective Rating Plan," "Contributory Dividend Plan," "Michigan Plan," or any other plan which involves readjustment of the premium at the expiration of the policy, dependent upon losses sustained during the policy year is submitted, such plan, to receive consideration, must conform to the following conditions:
   (a) Such plan must be limited to one year in duration.
   (b) Maximum premium (net, after dividend, if any, in mutual companies) must not exceed the "Standard" premium (meaning the premium developed by multiplying actual payrolls by the rates shown in the policy).
   (c) Exact percentages of "Standard" premium to be charged as maximum, and minimum premiums, and for each percentage point of loss ratio between maximum and minimum, must be shown.
5. If no "Retrospective" or other similar plan is submitted, exact percentage discounts to be allowed, if any, must be stated.
6. Policy is to provide that common law liability limits applying to volunteer and regular firemen while on duty outside city limits are increased from $5/10,000 to $25/25,000.

Note: Present policy expires January 1, 1958.

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